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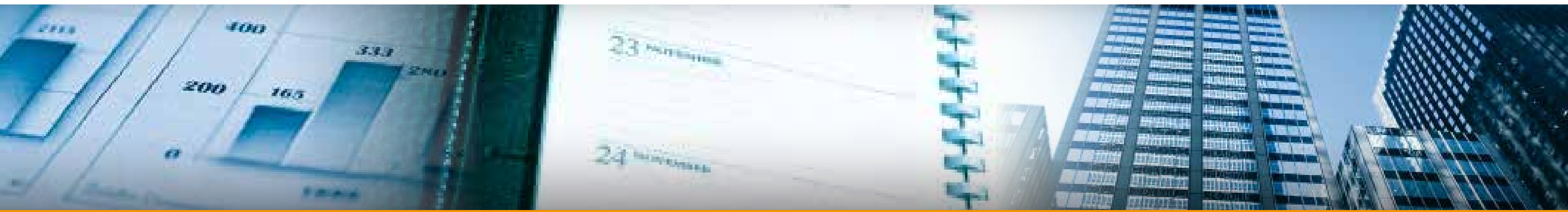

Summary

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European Mortgage Federation

ECBC
European Covered Bond Council
The Covered Bond Voice of the European Mortgage Federation

Introduction: Milestones in Housing Finance across Europe

By Jens Lunde, Copenhagen Business School & Christine Whitehead, London School of Economics

ENHR
European Network for Housing Research

In 1989, an iconic year for political and regulatory change across Europe, the European Network of Housing Research (ENHR) set in motion the processes to establish a working group on housing finance. The aim was to bring together researchers in the field scattered across Europe working in universities, research centres, government departments and other institutions to monitor and analyse how housing finance markets were changing, the impact these changes were having on housing markets as well as on regulatory systems and the relationship between housing and broader finance markets. It was obvious even then that the future was going to be very different from the highly regulated or government funded systems that were the post-war experience with respect to both consumer and developer finance of most European countries.

The working group, coordinated by Bengt Turner - the Chair of the ENHR - and Christine Whitehead, was confirmed in 1990. Since then the group has worked together and met regularly at least on an annual basis, bringing in experts from a wider range of countries as research in the field has become more important. The group is now the longest established ENHR working group with undoubtedly the broadest range of outputs including in particular regular comparative assessments of how markets and policy are developing. Now we are celebrating the group's twenty-fifth anniversary – in two stages. This year, twenty five years after its inception, we held a workshop at the ENHR International Conference in Edinburgh at which we discussed early drafts of papers that clarify country specific milestones in the development of housing finance markets over the period. Next year we are publishing a book, edited by the current co-ordinators, Jens Lunde and Christine Whitehead, and published by Wiley Blackwell, which will cover experiences in twenty-one countries together with comparative analysis, bringing out trends and future prospects. The publication will be launched at the ENHR International Conference held in Lisbon in late June 2015 (details available at http://www.enhr2015.com).

One of the particularly important activities of the working group has been our collaboration with the European Mortgage Federation - European Covered Bond Council (EMF-ECBC). The most important element of this collaboration has been a series of regular joint seminars (the last one held in September 2013). In part to celebrate this continuing engagement, the EMF-ECBC has given us the opportunity to guest edit a special edition of its newsletter, Mortgage Info, to preview the book and to give its stakeholders a first taste of our findings. We decided to concentrate on milestones and trends that have emerged since the Global Financial Crisis in a cameo format. The authors of the twenty-one country chapters were asked, in 300 words or so, to provide cameos identifying the most important milestones and trends in housing finance mortgage markets since the crisis. The editors have then brought together some first thoughts on how experience has compared between countries and whether there are any clear general trends and lessons to be drawn. The intention is to give readers both an immediately interesting picture of developments and a foretaste of the much more detailed material which will be published next year.

THE COUNTRIES

The twenty-one countries included in the book and this special edition newsletter can be fairly readily categorised in traditional geographic and legal/institutional terms. The first eighteen are fully located within Europe. We have in addition included two, Russia and Turkey, which are partially European (and have systems that look to the West) and one, Australia, which is Anglo-Saxon in legal/institutional terms but located on the other side of the globe. Secondly, within Europe there are five or six generally recognised groupings based on governance and economic approaches as well as geography into which our sample can be allocated. These include:

- Anglo-Saxon – the most market oriented here represented by the UK, Ireland and outside Europe by Australia;
- Scandinavian – including Denmark, Finland, Iceland, Norway and Sweden linked geo-politically and in terms of their general approach to welfare;
- Central European corporatist systems – exemplified here by Germany and Austria;
- Ex-communist countries including the Czech Republic, Hungary, Poland, Russia and Slovenia;
- Southern European countries – including here Portugal, Spain and Turkey; and
- A much less clearly defined contiguous group of Belgium, France and the Netherlands which individually have linkages to other groupings dependant on the attributes of relevance for analysis. For instance, the Netherlands will often be grouped with Scandinavia as indeed is France at least in housing terms (while all three are part of the original European Union as are Germany and Austria).

As we look at the experience especially since 2008, it is obvious that this type of grouping hides many complexities and inter-linkages which reflect widely differing experiences both within and between each group. Equally, finance systems operate at different levels so sometimes we need to understand at least national, EU, Eurozone, European and global distinctions.

THE AUTHORS

The authors are all specialists in the fields of housing policy and housing finance in their own countries. All are writing in an individual capacity. At one end of the spectrum there are those whose research concentrates on macro stability and private finance markets, with housing as a special case; at the other end, there are those who are expert in understanding the role of government and its funding in providing housing across the income spectrum. These interests often reflect the history of housing policy and finance in each country and inherently impact on what each has chosen as the most important factors affecting their country's financing system now and in the future. The cameos presented here are short and sharp, reflecting both experience and culture. Taken together they present a complex picture of the very diverse experience since the mid-2000s. Using a consistent template the chapters in the book will cover both a much longer time span – beginning around 1989 – and a much greater analysis of the diverse drivers of change in each county's housing finance system.

HOUSING FINANCE SINCE THE GLOBAL FINANCIAL CRISIS

The cameos presented here suggest that, although finance markets are international and in some contexts global, the outcomes of the crisis at the national level have been very diverse. Pre-crisis, the upturns in housing and property markets as well as in housing debt were strong, long and moved in parallel in a surprisingly large number of countries. However, while the Global Financial Crisis (GFC) had immediate effects on all countries thereafter, both the intensity of its impact and medium-term trajectories varied greatly between countries. On the other hand government responses, while nation based, have been rather more consistent, reflecting not only similar concerns about the effectiveness of regulation but also the tensions around international competitiveness and broader based macro-economic objectives.

Here we bring together some of the evidence from the cameos to help identify whether there are general patterns in the ways that external events impact on national finance and housing markets, and in how governments have responded to the housing finance crisis.

DIVERSITY IN THE IMPACT OF THE GLOBAL FINANCIAL CRISIS

Again we can divide our sample of countries into a number of groups with respect to the impact of the financial crisis – but these groups differ considerably from the categories identified above. Moreover the picture can be seen more as a multi-faceted spectrum rather than being made up of entirely separate categories.

Experts in seven countries among the twenty one represented here suggest that housing finance and housing markets in their countries were *relatively unaffected* by the global financial crisis. These include in alphabetical order: Austria, Belgium, the Czech Republic, France, Germany, Norway and Sweden. The countries do not come, as many commentators have argued, wholly from particular institutional frameworks but include examples from four of the six geo-political categories identified above. Some of these countries have quite open finance markets, e.g. Norway and Belgium, while others are still mainly dependent on special circuits of housing finance. The reasons given for the limited impact also differ greatly – ranging from relative macro-economic stability, as in Germany and the Czech Republic, a continuing limited role for private finance as in the Czech Republic, relatively strong regulatory frameworks as in Norway and Germany, and high levels of government involvement as in France and Austria.

It is also important to note that in at least three of these countries there is considerable concern around current trajectories. In Sweden household debt continues to grow and prices have been rising rapidly in some parts of the country; in Austria major housing shortages are seen to be driving rapid growth in house prices and political pressures for change; in Germany there are similar issues although prices are rising from a low base and only in some cities.

Importantly, some of those who see little impact on the mortgage and housing markets also point to major problems with respect to the capitalisation and asset holdings of banks leading to major restructuring. These have had relatively short-term impacts on the flow of funds into mortgage markets but have had longer-term effects on housing supply. Germany is perhaps the most notable example in this context.

A second, overlapping, group of countries are seen by our experts as having suffered in the immediate aftermath of the crisis but then, with the help of specific government intervention to revive and stabilise the housing market, and to build stronger regulatory arrangements, were able to come out of the crisis relatively rapidly. Some of those we have identified as relatively unaffected would also place themselves in the category of having an *effective government response* – notably the Czech Republic, Norway and Germany. However, the group also includes Australia where there was a three pronged approach (stimulation of housing supply; support for financial flows and better targeted regulation); Finland which had learned a great deal from the early 1990s crisis; and Turkey where government moved to rebalance the drivers of housing demand and supply resulting in short-term setbacks but longer-term benefits.

Thus experts in ten out of our twenty one countries suggest that either there was relatively limited impact or that this impact was short-term and successfully addressed by government responses. This is not to say that these markets have remained unchanged. In particular the crisis has been followed by recession in almost all European countries leading to considerable changes in market behaviour, particularly with respect to housing investment. Rather it is to say that these finance systems have proved relatively resilient into the medium-term.

Experts in the other eleven countries see the impact of the crisis as very significant, but again the group can be split into three main groups: (i) those that have returned to some sort of normality relatively quickly even if there are still underlying longer-term issues; (ii) those where there are major continuing problems but significant signs of improvement; and (iii) those where the housing crisis was central to wider economic crises which have yet to be fully resolved. Denmark, Finland (even though already included in the second group), Poland and Russia can be regarded as in the first of these categories. Market disruption was initially very considerable but market activity returned to reasonable levels in the following years. In most cases market demand has anyway fallen so there is no shortage of funding. In Finland the immediate crisis lasted only a year; in Denmark and Poland the adjustment took longer; in Russia activity levels had recovered with the help of government support by 2012. But issues of over-indebtedness and consumer risk appear to remain in Denmark and in Finland; the negative effects of foreign exchange mortgage lending in Poland, Hungary and Iceland that took place prior to the crisis will take years to unravel; and in Russia, while the housing finance market for mortgages and development are seen to have recovered to pre-crisis levels, there are growing concerns about the capacity to borrow on international markets.

Countries where the effect of the crisis on housing finance and housing markets was very significant and where, while there has been improvement, financial markets are still seen to be constrained include the UK, which continues to see lending and output levels at little more than 50% of pre-crisis levels although there are signs of much stronger economic recovery than in much of the rest of Europe; Slovenia and Portugal where lending has continued to fall and signs of macro-economic recovery are still quite tenuous; and in the Netherlands where the nature of the problem has changed as a result of government measures to mortgage tax relief and other housing subsidies, further delaying recovery. Hungary is also a special case because, unlike Poland, the mortgage market has been paralysed by the 'unorthodox' mortgage rescue programme and there are as yet no signs of either economic or finance market recovery. In identifying this group it is important to clarify that in all of these finance markets the credit crisis was very significant; there has been major restructuring of both banks and regulatory systems; and the levels of activity remain low by historic standards.

The final group of three countries – Iceland, Ireland and Spain – are distinguished by the fact that the housing market and financial crisis morphed not only into a much broader based financial crisis but also into large scale disruptions in the real economies. Prior to the crisis housing output levels had been historically high and the cutbacks in investment as well as the near-collapse of their financial markets have led to international as well as national intervention to support and restructure markets. In all cases there are some limited signs of improvement at the margin, but the extent of over-indebtedness and the loss of asset values mean it will take many more years before well operating finance and housing markets are likely to be observed. But it is also clear that this is only one end of a spectrum. Portugal in particular has very similar attributes but had made adjustments earlier in the decade which enabled them to avoid a massive pre-crisis housing boom and many of the worst impacts on housing finance even though the real economy suffered extremely badly.

Thus the most important general finding is that none of the experts see current conditions as equating to longer run equilibrium. In a few countries, notably where mortgage markets are still relatively small and undeveloped so that mortgage finance plays a relatively small part in financing ownership such as the Czech Republic, Poland, Russia and Turkey, experts suggest that the operation of finance markets is continuing to improve with the expansion of wholesale markets and greater liquidity.

At the other extreme in market oriented systems, especially in highly indebted countries, there is the hope, if not always the expectation, that deleveraging will reduce risks to consumers, financial institutions and national economies alike. In almost all countries access to funding is expected to remain more difficult in the medium and indeed the longer-term, in part because of changing risk attitudes among both consumers and institutions, and in part because of government and international finance market intervention. In some countries mortgage markets have of necessity become less central to the operation of the housing market at least in the medium-term. In the UK for instance some 40% of transactions are currently cash only. More generally, activity rates are unlikely to return to past levels both because of greater risk aversion among consumers and because of increased controls on lending. Most fundamentally the recession, which in most countries followed the financial crisis, is still affecting both demand and investment. Recovery is expected to be slow.

CONSISTENCY IN GOVERNMENT RESPONSES?

As soon as the scale of the crisis became obvious, the vast majority of countries included in our sample took immediate action with respect to housing finance market liquidity. These measures were usually part of a broader approach to keeping finance markets functioning. Many countries, including some where mortgage markets continued to operate quite well, found that parts of their banking system required restructuring and often recapitalisation. These problems required an immediate response, followed by more structured approaches involving 'bad banks', takeovers and transfers to government ownership.

Initial interventions are being replaced in many countries by more coherent approaches to evaluating risk and introducing more consistent and coherent regulatory requirements addressed at financial institutions in general and mortgage lending in particular. Examples here include Australia, Finland, Ireland, Iceland, Norway, Portugal and the UK. In the medium and longer-term the majority of countries are working towards compliance with Basel III and the commensurate higher capital requirements. Consistent with these requirements many countries are looking to reduce loan to value and loan to income ratios – although from very different starting points. In the Netherlands loan to value maxima still remain above 100%, in Sweden a limit of 85% has been imposed while in Finland they are aiming at 90%. Many regulators are also looking to broaden affordability assessments which take better account of a household's overall financial commitments.

A particular issue in the run up to the crisis was the growing range of mortgage instruments available (including depending on the country, variable rate mortgages, interest only, longer-term mortgages and many other variants which improved immediate affordability). In the main mortgage institutions have reverted to more mainstream instruments supported by tougher regulatory rules. Loans denominated in another currency, which were particularly important in some Eastern European countries as well as in Iceland, and more exotic examples have been withdrawn by government decree or indeed by the market. The Dutch government used the "tax weapon" to make interest only mortgages unattractive for first time buyers while in the UK the regulator now requires the credit assessment to be based on an annuity mortgage whatever the form of the actual mortgage. There are exceptions, notably Sweden, Denmark and Finland, where interest mortgages remain readily accessible, but generally the evidence is towards greater restrictions.

Finally some countries have chosen, or been forced to choose, to make major policy changes with respect to reducing subsidies to owner-occupation, notably in the Netherlands, Hungary and the devolution of fiscal support to owner-occupation in Belgium. These and other policy changes impact directly on the operation of housing finance and housing markets in these countries.

A CONCLUDING COMMENT

In the following pages you will find the country cameos from which the overview set out above has been drawn. It should be remembered that housing finance systems do not stand still – this is very much an immediate viewpoint. Additionally the interpretation of current evidence inherently depends on individual experience, both with respect to particular country cameos and the overview presented here. Other commentators would interpret the evidence in different ways and that interpretation will change as further evidence comes forward.

Perhaps the most important message to be drawn from the material presented here is that while finance markets are in many ways global, housing markets and housing finance systems are very specific to each country, reflecting different histories, legal systems, institutions, economic conditions, policies and politics. The result is that outcomes in terms of both housing finance and housing markets are extraordinarily diverse.

Even so, we can identify some consistent trends and impacts. In particular highly deregulated markets are out of favour and the implementation of Basel III capital requirements will limit the revival of mortgage markets in many mature systems. The trend is towards the introduction of both tighter and more consistent risk assessment rules, carrying with it the potential for excluding many customers who could reasonably afford to borrow over the longer-term. There are also emerging concerns, especially in countries that suffered little as a result of the financial crisis, around increased indebtedness (e.g. with respect to interest only loans in Denmark, Sweden and Finland) and increasing house prices. There are still many consumers facing financial difficulties, notably those holding foreign exchange denominated mortgages and those in negative equity as well as those in arrears who are being maintained in their homes through short-term forbearance policies. In many countries there are concerns about what happens when interest rates start to rise. The clearest message therefore is that there is a long way to go before we can claim that across the board European mortgage markets have both adjusted to the post-crisis realities and built up resilience to future shocks.

Country Cameos

Please note that the opinions expressed in these cameos are solely those of the authors acting in their private capacities and are not necessarily shared by their employers or by the EMF-ECBC and its members.

AUSTRALIA

By Maria Belen Yanotti, PhD Candidate, Tasmanian School of Economics and Finance, University of Tasmania & Judith Yates, School of Economics, University of Sydney

Australia's financial system proved resilient during and after the Global Financial Crisis (GFC). Its regulatory framework, the underdevelopment of the securitisation market, the predominance of mortgage debt on-balance-sheet, and conservative lending practice relative to other countries have resulted in a sound mortgage market. Proactive monetary and fiscal policy responses together with a temporary guarantee on deposits in Authorised Deposit-taking Institutions (introduced in 2008) contributed to avoiding a recession. A permanent government guarantee (up to a cap) has since been put in place in 2012.

However, Australia's housing finance challenges revolve around generating accessible finance to income and wealth constrained home owners and residential investors, particularly for affordable housing for young first-time home buyers and community housing providers. The highly concentrated mortgage market around four major domestic banks still relies heavily on domestic deposits and wholesale debt. The growth in long-term savings in superannuation funds, together with the recent issue of covered bonds, could provide alternatives for long-term sources of funds to mortgage debt; securities instruments need to be designed and risk-assessed. In addition, counter-cyclical housing finance innovations are expected to improve the financial system's stability and sustainability. Australia's Prudential Regulatory Authority (APRA) is in the process of adopting Basel III recommendations. However, continued consideration with regard to the expansion of controls and regulation of non-Authorised Deposit-Taking Institutions in Australia is necessary. Australia will need to asses which financial institutions are best placed and what instruments should be employed to fund housing that is affordable into the future.

AUSTRIA

By Alexis Mundt, research associate at the IIBW Institute for Real Estate, Construction and Housing, Vienna & Elisabeth Springler, Director of Studies "European Economy and Business Management", University of Applied Sciences BFI, Vienna

In Austria, contrary to many other OECD countries, there was no drastic price boom before or price correction in the light of the Global Financial Crisis (GFC). Strong institutional interrelations helped to ensure comparatively smooth housing price increases and low housing costs throughout most of the last 25 years. The high share of social rental housing has also contributed to this subdued price development. Since 2008, prices have not fallen but rather risen more strongly, especially in the apartment sector, in Vienna and in most regional capitals. Demand is high because of population increase, household formation and investment by private households: in the light of the GFC households have been relocating their savings into the purchase of real estate, which is considered a very safe asset. In the absence of price corrections in the aftermath of the GFC, Austrian households were not confronted with surging debt and negative equity.

Since 2010, the share of mortgage debt to GDP in Austria has stagnated at around 28%, which is low compared to many other western European economies. In this context, the high rental share in Austria and the dependence on own equity for single-family housing construction (or purchase) has contributed to the relative resilience of housing finance to external shocks.

As for single-family housing construction and purchase, private bank mortgage loans have gained importance over the last decades, but in a moderate way as compared to international experience. The current widespread availability of low-interest mortgages has reduced the relative advantage of subsidised finance instruments, such as Contract Savings loans and regional housing loans. At the same time, since 2008 the regions have continued to reduce their overall regional housing subsidies which have played a major role in financing housing projects in the past.

Even though the availability of new foreign currency mortgage (FCM) – mainly denominated in Swiss francs – to households has been heavily restricted since the GFC, hidden risks continue in the form of outstanding mortgages and will only show in the future. This is because they were granted as bullet loans heavily drawing on repayment vehicles that have shown poor performance. Since it will take at least until 2018 for the bulk of outstanding FCM to amortize, the eventual performance of these repayment vehicles is still uncertain and so is the vulnerability of households.

BELGIUM

By Sien Winters, Research Manager Housing, HIVA Research Institute for Work and Society, Ku Leuven; Coordinator, Policy Research Centre Housing

The Belgian mortgage market has expanded considerably during the last decades, especially since 2005. This has been the result of a combination of increasing prices for dwellings and land, an increase in the number of new mortgage loans and in the average terms of the loan contracts. In particular the amount of new mortgage credit for transactions and for renovations has increased rapidly. New transactions were driven by the continuing increase of house prices and stimulated by tax measures, such as the portability of transfer tax in Flanders. Renovations were strongly stimulated by government measures promoting energy-saving investments, especially between 2009 and 2011. However, compared to other European countries, the level of indebtedness in Belgium remains low: the outstanding mortgage debt was still less than half of GDP in 2012.

In contrast to many other European countries, the fall in house prices during and after the Global Financial Crisis (GFC) was modest and prices started increasing again in 2010. Reasons for this limited reaction to the crisis can be found in prudent mortgage behaviour (safeguarded by the mortgage law of 1993), the typical nature of homeownership and building industry in Belgium (house building is traditionally mainly self-promoted) and the strong social security system. The introduction of the 'woonbonus' in 2005, a large tax benefit for owner-occupation, importantly sustained the market.

Future development in prices will first depend on income and interest rates as housing market fundamentals. In addition, some prudential measures introduced by the National Bank to strengthen the banks' resilience and reduce the risks should have a stabilising effect on prices at the same time as a dampening effect on mortgage credit. Of particular importance, however, will be a possible change in tax regime by which, from 2015 onwards, the regions will be able to design their own tax policy with respect to owner-occupied housing. Although the system of fiscal benefits for owner-occupation is still strongly supported by the general public and politicians (although less by academics), for budgetary reasons cutbacks might be inevitable and during the next years could have an impact on house prices and consequently on transactions, renovations and new building.

CZECH REPUBLIC

By Martin Lux, Institute of Sociology, Academy of Sciences of the Czech Republic & Petr Sunega, Institute of Sociology, Academy of Sciences of the Czech Republic

The development of the housing finance sector in the Czech Republic after 2008 was affected by the Global Financial Crisis (GFC). Prior to the crisis, there was a boom in residential property prices and in the numbers and volumes of housing loans (mortgage and Bausparkasse) in the period 2000-2007. Thereafter the housing market declined.

As in most other post-socialist states, the impact of GFC became pronounced later than in developed EU states – in the autumn of 2008. While the number of newly granted mortgage loans had decreased by 19% already in 2008, the decline in prices and volumes of newly granted loans did not emerge until 2009. Between the third quarter of 2008 and the second quarter of 2012, prices of flats (apartments) decreased by 20% in nominal terms, but the prices of detached homes dropped by only 3.7% and prices of plots appreciated during the same period. The number of newly granted mortgage loans decreased by 35% in 2009, but the market recovered and broke through the pre-crisis level in 2013. The volume of newly granted mortgage loans dropped by 50% in 2009, but it almost reached the pre-crisis level in 2013.

Despite the decrease in residential property prices described above, the impact of the GFC on the overall macroeconomic situation was rather mild in the Czech Republic. The financial market was frozen during 2008/2009, and decreases in the discount rate by the Czech National Bank had only limited effect on interbank money market rates. Commercial banks tightened their loan conditions. In practice this meant that the loan financing of new housing development projects de facto stopped; and mortgage loans for households were tightened through adding a maximum loan-to-value ratio or imposing a minimum income requirement to all new loan requests. The "innovative" mortgage products of the boom period quickly disappeared from the market, although formally banks continued to offer these products to customers. The default rate for housing loans (Bausparkasse and mortgage) increased in 2009 and 2010 and then remained more or less stable in 2011 and 2012 (at about 3.4%). No Czech bank was taken over or went bankrupt between 2008 and 2013.

There are no dramatic institutional changes envisaged in the foreseeable future. Property prices started rising again in 2013, even though the growth was not then underpinned by economic fundamentals. It is now expected that there will be moderate but gradually accelerating price growth, conditioned by improvements in the macro-economy.

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DENMARK

By Jens Lunde, Associate Professor, Department of Finance, Copenhagen Business School

Even before the outbreak of the Global Financial Crisis (GFC) in September 2008, the Danish economy, housing market and banking system had already weakened, and the crisis helped generate an ongoing recession. Now, while house prices have fallen, households' nominal debt remains at the levels experienced at the end of 2008, although the total includes more mortgage debt and less in the form of bank loans than before the crisis.

As Danish borrowers are highly indebted, a deleverage process has been ongoing: the debt/GDP ratio has been gradually reducing since 2009 as borrowers had to repay debt, i.e. to save more and reduce consumption. In 2013 real GDP was still 4.0% below 2007 levels.

The outbreak of the GFC threatened Danish mortgage bonds, but the mortgage market continued to function. The interest rate gap which had normally been around 0.1-0.2% for nearly identical short-term state and mortgage bonds widened seriously in October 2008, and the mortgage bond market could have dried up had defensive measures not been used. Here the most important initiative was the central bank's offer to mortgage banks of a refinancing scheme for their "own" bonds.

The Danish government and the central bank made several rescue operations to avoid financial distress, keep the bond markets functioning, and to restructure failed banks. In total 62 banks stepped more or less "voluntarily" out of the market. No mortgage banks were in that group.

The GFC disclosed a *serious systemic risk* as Danish mortgage banks offer 30 year ARM mortgages with a 30 year loan guarantee but with annual interest rate resetting, i.e. with 30 future interest rate settings over the following three decades. This involves a liquidity risk that the bonds, issued for refinancing, cannot be sold or only sold at extremely high interest rates at the auctions. This risk is very small but, if realised, the consequences could be enormous. The mortgage banks have increased their auctions to four times a year and a legal change of rules with respect to 1 and 2 year ARM bonds has been made, but the systemic risk has not been fully removed.

To meet higher credit risks, the mortgage banks have increased fees and differentiated rates between the expected risk on the different loan types, and thus are charging most for adjustable rate and interest only mortgages.

FINLAND

By Tommi Laanti, Ministry of the Environment, Finland & Timo Tähtinen, Ministry of the Environment, Finland

The Global Financial Crisis (GFC) hit Finland in the autumn of 2008. It led to increased interest rates and drops in house prices as demand for houses declined. The direct effects from the financial crisis were, however, temporary, lasting only until the following summer. Then interest rates were reduced to historically low levels and house prices continued their climb.

The more fundamental change in the Finnish housing finance system came in the actions taken to avoid financial crises in the future, namely modifications to the rules concerning financial markets and financial institutions. In addition, the Financial Supervisory Authority has been active in guiding the banks. It issued guidelines in 2010 with regard to lending practises, according to which the banks should not in general use higher than 90% LTV's and should make scenario calculations on debt servicing based on 6% interest rates. It also demanded the introduction of a binding LTV-limit for mortgages which requires legislation. It is suggested that the limits would be set originally at 95% for first-time buyers and at 90% for existing owners (the banks could not give higher ratio mortgages, but other loans would be possible). There would be a committee, which could set lower limits during housing market booms in order to lower the risks of the households and the banks. The system is set to come into force in 2015.

As a result of the changes made so far and, to some extent, expected forthcoming changes as well, interest rate margins have increased from around 0.5 percentage points to around 1.5 percentage points. The banks have also increased their reliance on covered bonds in funding for mortgages.

Mainly as a result of the weak economy in the last few years, housing demand has been low and house prices have been quite stable. This situation is likely to continue. It is also likely that housing demand will continue to be concentrated in larger cities and their surroundings, while declining housing demand and house prices are likely to be experienced elsewhere. There is already some evidence of this taking place.

FRANCE

By Bernard Vorms, President du Conseil National de la Transaction et de la Gestion Immobilière; Former President, SGFGAS (guarantee fund for social home ownership); Former Director, ANIL (Agence nationale pour l'information sur le lodgement) & Christian Tutin, Department of Economics, University of Paris

The facts that mortgagors were not severely affected by the Global Financial Crisis (GFC), that the rates of default and possession barely increased and that it has not induced a credit crunch (albeit there was a sharp drop in the number of property transactions and construction projects) have limited criticisms about the characteristics of the French credit system: namely its restrictiveness.

Paradoxically, the French credit system has been reinforced by the crisis. Certainly, the outcome will be to defer the introduction in France of practices observed before the crisis in a number of countries, like equity withdrawal, or the relaxation of the rules regarding mortgage contracts and consumer protection.

The Basel rules will have a restrictive effect on the supply side and the main challenge remains how to respond to the principal weakness of the current aid mechanism for first-time buyers – namely its inability to encourage building projects in the areas where demand is highest.

In this context, public aids have been so poorly targeted that they have become increasingly unnecessary. During the last decade, more than 70% of new-build dwellings that benefited from a subsidised loan were built in areas where pressure on housing and land prices are lowest. Conversely, on the most expensive markets, where demand is highest and the labour market more dynamic, aid is available only to first-time buyers who are already able to provide a significant down payment - bearing in mind that in most cases such "personal" contributions rely upon family support. As market pressure and property prices increase, family wealth becomes more important than income in determining demand. It is the main hurdle excluding new entrants from access to home ownership, especially young people, but the solution cannot come from relaxing the rules of credit availability.

GERMANY

By Stefan Kofner, Director TRAWOS Institute, Görlitz, Germany

On the surface, the German system of housing finance survived the Global Financial Crisis (GFC) relatively unscathed. As compared to many other countries, no sharp decline in the granting of mortgage loans was observed. The refinancing volume has maintained a stable trajectory.

Yet, the financial crisis has hit the German banking system relatively hard. The infection was primarily carried through indirect exposure to the U.S. mortgage market. Particularly affected were some state banks (Landesbanken), but private mortgage lenders also suffered. The German government has introduced a series of actions necessary to rescue the financial system since 2008. In so doing it guaranteed all bank deposits as well as the functionality of the Pfandbrief market. The government also created a Special Fund for Financial Market Stabilisation (SoFFin) and bailed-out several banks considered necessary to the system. In addition, the government has taken measures to stabilise the economy and the labour market. All in all, appropriate action was taken to protect investors, homebuyers, mortgage lenders and other actors from infection. The fire was effectively isolated.

Currently, warnings about a developing house price bubble are gaining ground in Germany. So far, however, the larger price increases are still limited to certain metropolitan areas. Also, developments to date are not reflected in significantly increasing volumes of mortgage lending. Nevertheless, given the low interest rate environment, there is a certain risk that a price bubble might occur if mortgage debt expands. Macro-prudential measures to limit mortgage lending may still be required in the future.

HUNGARY

By József Hegedüs, Managing Director, Metropolitan Research Institute, Budapest & Eszter Somogyi, Researcher, Metropolitan Research Institute, Budapest

Hungary was hit hard by the Global Financial Crisis (GFC) partly because of the high FX mortgage portfolio and the weak fiscal policy of the pre-crisis period. Housing investment declined sharply, by 80% (measured by the number of the newly built units); average house price decreased by 25-30%; and housing transactions went down by 40% between 2008 and 2013. The government introduced regulatory measures with respect to new mortgages (FX loans disappeared and bank/lending related consumer protection improved). Housing subsidies were cut for two years, and then re-introduced at a much lower level.

As yet, there is practically no clear sign of economic recovery. The housing finance system has been paralysed by the prolonged "unorthodox" mortgage rescue programme started in 2010 and by unfavourable macroeconomic factors (very low economic growth; high government indebtedness; unemployment; outmigration of the young workforce, etc.). The government successfully kept down the budget deficit (less than 3%) and avoided austerity measures as a part of its populist policy, in order to maximise the political power by nationalising private pension funds and introducing punitive special taxes on banks and foreign owned enterprises.

The "unorthodox" element of the "home protection" programme introduced by the government in 2011 was across-the-board financial help to borrowers whose mortgages were foreign currency based. The so called early repayment programme helped well-off households who were able to repay their loans at a discounted exchange rate (lower than its pre-2008 rate). The cost of the programme was laid on the banks.

The main social problem was caused by the households who were not able to make their loan repayments. The stock of non-performing loans increased from 2.6% to 12.3% between 2008 and 2011, but because of the effect of the pre-payment scheme it went above 20% by 2013. The prolonged moratorium on foreclosures - which was introduced in 2010 and stopped in October 2011, then reintroduced again - created huge uncertainty and decreased the willingness to pay of low-income households. The new National Property Management Agency (set up in 2012) assists the poorest 10-15% of households with loan repayment arrears exceeding 90 days by buying foreclosed loans and renting out the housing units to the previous owners. Meanwhile, based on a Curia (the Supreme Court) decision the banks are required to compensate borrowers for the increases in interest and exchange rates, a recent development which enhances uncertainty.

Recovery in the housing and mortgage market is expected once the mortgage rescue programmes close. However, their costs to the banking and household sectors, and to the state budget, are still to be determined.

ICELAND

By Lúðvík Elíasson, Senior Economist, Central Bank of Iceland – Financial Stability & Magnús Árni Skúlason, Managing Director, Reykjavík Economics

At the height of the Global Financial Crisis (GFC) in the autumn of 2008, Iceland's three large banks failed and their estates are still going through the winding-up process. Market transactions in the housing market came to a halt and housing investment stalled.

Legislation on covered bonds was passed in the parliament in 2008. As a result, the new banks, founded around the domestic operations of the failed banks, have started to issue covered bonds to help finance their mortgage lending.

The Icelandic banks and pension funds are able to meet the demand for housing finance at market determined interest rates. A variety of mortgages are available at the banks with choices of fixed or floating interest, indexation, annuities or fixed instalments. This is in contrast to the almost universal model of fixed real-rate inflation linked 40 year annuities offered previously.

Nominal interest rates have been unusually low which explains the increased demand for non-indexed loans, but well over half of new mortgages are still inflation linked. Interest rates on non-indexed mortgages are usually either floating or, at the minimum, reset every three to five years.

Accumulated losses at the Housing Financing Fund (HFF), mostly arising from the increased risk they took on when its funding was revamped in 2004 together with shaky management of the ensuing prepayments, amounted to ISK 100 billion at the end of 2012 (about 6% of GDP). Future losses have been estimated in the ISK 32 billion to ISK 170 billion range. A report contracted by the Ministry of Welfare in 2014 recommended the HFF be closed down and the structure of the mortgage market be adapted to be something closer to the traditional Danish model, leaving out many of the adjustments made in Denmark over the past 15 years, which have eased access to lending and lowered the payment burden resulting in over indebtedness.

How to address the excessive risk taking by banks, particularly when supplying mortgages, is under consideration at the Central Bank, which is looking at, for example, countercyclical measures to reduce housing market volatility.

IRELAND

By Anna Coyne & Padraic Kenna, School of Law, National University of Ireland

Ireland's period of unprecedented economic growth abruptly came to an end amid the fallout of the Global Financial Crisis (GFC). The State guaranteed all banking debt in 2008. The State later agreed a financial package with the so called "Troika" as lenders of last resort - the International Monetary Fund (IMF), the European Union and the European Central Bank (ECB). The IMF arrangement for Ireland, approved in December 2010, was part of a financing package amounting to €85 billion. This was supported by the European Financial Stabilisation Mechanism and European Financial Stability Facility, as well as by bilateral loans from Denmark, Sweden and the United Kingdom.

What is significant about Ireland is the level of mortgage debt to GDP which is slowing economic recovery. At the end of 2013, there were 764,567 mortgages on principal private dwellings in the Republic of Ireland, to a value of €107.4 billion. Some 136,564 were in arrears, with 96,474 in arrears over 90 days – 16.9% of all mortgages. In March 2013 the Central Bank set "performance targets" for the major mortgage lenders to resolve mortgage arrears cases. This follows the introduction of a significantly revised Code of Conduct on Mortgage Arrears, which sets down the process that lenders must follow when dealing with owner occupier borrowers in arrears / pre-arrears. In addition, new legislation to introduce a limited non-judicial debt settlement scheme was enacted in 2012, leading to the establishment of the Insolvency Service of Ireland.

Legislation enacted in 2009 created a new category in Irish mortgage law of 'housing loans' and integrates consumer protection into these 'housing loan' mortgages. The courts have incorporated this legislation into mortgage case law and the subsequent regulation of the balance of power between individual borrowers and corporate lenders is creating a unique and innovative set of precedents in Europe. In any case, possessions and evictions have been low compared to other States with mortgage lending crises. The level of mortgage debt and the attempts of lenders and the government to balance this debt with the interests of indebted homeowners are the significant characteristics of Irish State housing finance policy since 2008.

Banks have been recovering from the economic downturn, previous lending policies and a reliance on global finance, and in the next two to three years the impact of the Banking Union will become apparent. This will affect the mortgage finance market especially with the introduction of the Basel III regulations and the EU Mortgage Credit Directive (2014), which aims to create an EU wide mortgage market with a high level of consumer protection. As a consequence it is anticipated that, as in many European countries, mortgage lending will become more restrictive, resulting in increasing reliance on the rental sector.

THE NETHERLANDS

By Marja Elsinga, Hugo Priemus, & Peter Boelhouwer, Delft University of Technology

The Global Financial Crisis (GFC) and its aftermath led to substantial changes in the Dutch housing finance system, particularly through re-regulation of the mortgage market and revision of the mortgage interest deduction for income tax.

A new Code of Conduct for mortgage financing (GHF) came into force in August 2011 (Nederlandse Vereniging van Banken, 2011). This new GHF included a range of measures to reduce lending and risks. The maximum loan-to-value ratio for mortgage loans was reduced from 110% to 106% then to 104% (and will decrease again to 100% in 2018 and maybe to 80% in the longer run). In addition, it became far more difficult for lenders to provide tailor-made solutions, which they had commonly done by means of 'explain mortgages' (loans that deviate from the 2006 Code of Conduct). Finally, for households without someone in permanent employment and for the self-employed, it became harder to get a mortgage.

In January 2013 the Dutch government introduced the rule that mortgage interest tax relief is no longer available for interest-only mortgages for first-time buyers. So in practice only annuity or linear mortgages are deductible for income tax for new home buyers. For a medium priced house in the Netherlands, this will lead to an increase in the necessary mortgage payment of approximately 40,000 euros, considered to be a substantial change. Moreover, existing mortgage borrowers are confronted with a rather minor change in policy: a reduction of 0.5% interest each year for the next 28 years for households in the highest tax bracket. As a result, after 28 years the tax deduction for higher-income groups will have fallen from 52% to 38%.

There are three reasons for this strenuous intervention in the Dutch mortgage market: for some years the IMF and OECD have criticised the large Dutch mortgage debt; the GFC, with the threat to the country's credit rating that might result from this level of debt; and the rules that have been imposed on banks as a result of Basel III, which means the banks are now required to increase the amount of their own financial reserves.

NORWAY

By Rolf Barlindhaug, Researcher, NIBR, Norwegian Institute for Urban and Regional Research

The Global Financial Crisis (GFC) did not reveal significant inadequacies in financial market regulation in Norway. In certain key areas, Norwegian regulation was somewhat stricter than in many other countries and stricter than minimum requirements in the EU. This contributed to the Norwegian financial institutions being relatively well capitalised at the outbreak of the crisis.

The financial crisis led to increased concerns about the banks' liquidity risk. The maturity of the Norwegian banks' funding has increased and makes the banks more robust against short-term failure of the funding. Nevertheless, several Norwegian banks are some distance away from meeting the upcoming international liquidity requirements even after changes in the definition has made the requirement easier to reach.

The Norwegian Financial Supervisory Authority introduced important mortgage lending restrictions on private banks in 2010, particularly a deposit requirement of 10%, later raised to 15%. The intention was to curb strong housing demand and thus reduce house price inflation. Another objective was to avoid negative equity for home buyers after a possible house price fall. First-time buyers were to a larger degree dependent on family support to find the deposit. Those without such possibilities have had to stay longer in the rented sector while they save the required funding.

The new Conservative government wants to soften the requirements of the Norwegian Financial Supervisory Authority. It has not formally changed the guidelines, but rather emphasised more flexible practices. Banks now use more discretion and are considering individual customers in terms of future wages, liquidity and solvency, and can give loans with LTV-rates above 85%, although not up to 100%. At the same time, the regulations around the use of the start-up loan have been tightened. Young households without equity can no longer apply to the municipality for a start-up loan with a LTV-rate up to 100%. Only those with permanent low incomes, but with the ability to repay the mortgage, can apply for a start-up loan in the future.

POLAND

By Jacek Łaszek, Warsaw School of Economics, National Bank of Poland & Marta Widłak, National Bank of Poland

The year 2008 saw a credit boom in Poland. Starting from 2009 the issuance of new loans began to slow down. House prices also declined until 2013. There was a strong downturn in the issuance of housing loans in 2009 and the number of unsold new housing units grew rapidly. However, banks started to issue more new loans in the following years. The fact that there were still unsold housing units was not the result of lower availability of housing loans, but rather of changes in the housing government subsidy scheme.

The most important event in the housing finance market was the introduction of regulations to decrease new housing loans in foreign currency (mainly denominated in Swiss francs), to limit loan-to-value ratios and reduce risks more generally. Foreign currency loans were restricted because their share in the loan portfolio was very high (they amounted to 60% of the total housing loan portfolio in 2008) and also because some risks became visible both in Poland and surrounding countries. The financial supervisory authority restricted such loans by increasing regulation and by discussion with banks. Consequently, the share of these loans in total housing liabilities declined to below 50% in 2013 and is still declining. Additionally, housing loan regulations now include such measures as loan-to-value restrictions which earlier were applied only to banks that issued covered bonds.

Polish housing policy is based on homeownership and will further increase the housing loan portfolio. In the current system, where loans are issued by universal banks and financed by deposits, the central bank guarantees the liquidity of the whole system and the deposit portfolios are guaranteed by the government. The creation of a more diversified loan model, based on loan financing through covered bonds is in train. However, this method is more costly and so far not well accepted by the population. Moreover, legal barriers still remain despite the legal amendments made in 2013.

We do not expect significant changes in the next few years. Banks are going to issue new loans, their loan portfolio might rise further, but their main financing will stem from retail deposits. The new regulations will make the loan portfolio safer and foreign denominated loans will further decline.

PORTUGAL

By Romana Xerez & Jaime R. S. Fonseca, School of Social and Political Sciences, Centre for Public Policies and Administration (ISCSP/CAPP), University of Lisbon

After the Global Financial Crisis (GFC), Portugal was affected by a rise in unemployment, a much higher tax burden, a decrease in households' purchasing power, falling house prices and a higher-risk mortgage market. From 2008 onwards there has been a decrease in mortgage loans and banks have placed more restrictions on lending, and imposed stricter requirements in terms of guarantees. Levels of mortgage default after 2008 were contained and there was no evidence of serious problems with a housing bubble. This can be explained by the end of the housing boom and a decline in home construction following the end of subsidised credit in 2001. Other reasons included the small percentage of low-income households with access to the mortgage market in Portugal, high family equity, mortgage and personal (usually from parents), reasonable collateral on loans and the extension of maturities to 40 or 50 years, among the longest in Europe.

After the crisis, the Portuguese authorities became stricter with respect to the regulation of credit institutions and bank customers. They also aimed to reduce levels of household debt with new legislation on monitoring public and private institutions, and included the Regularisation of Defaults (PERSI, 2012), a Default Risk Action Plan (PARI, 2012) and regulation to ensure Responsible Lending (2014-2016). PERSI laid down detailed rules on reporting information on debtors in very difficult economic circumstances who needed to renegotiate their mortgage contracts. PARI was created in 2012 to monitor the implementation of loan agreements, detect default risks and promote rapid default prevention measures. Despite these regulations, PARI has not been effective in preventing an increase in mortgage defaults over the last two years, which is expected to continue in the immediate future. On the other hand, housing prices are now rising and a significant pick-up in buyer interest in Portugal suggests signs of growth in the housing market.

RUSSIA

By Andrey Tumanov, Evgenia Zhelezova Agency for Housing Mortgage Lending, Russia & Maria Plotnikova, Aberystwyth University, UK

Mortgage market development in Russia started in 1998, but the recession in international markets (2007-2009) led to liquidity shortages in housing finance in the second half of 2008. The government introduced measures to counter the effects of the financial crisis. State support measures included an additional contribution to the authorised capital of the Agency for Housing Mortgage Lending including 60 billion Rubles to refinance mortgage loans and reschedule mortgage loans for those borrowers who found themselves in trouble as a result of the crisis; and 250 million Rubles to support household demand for newly built housing by providing facilities to banks to issue mortgages with interest rates at a maximum of 11%.

Because of the state support for housing finance the mortgage market had fully recovered by the end of 2012. Home-buyers became more confident about using mortgage funding with 26% of registered housing transactions in Q1 2014 purchased with a mortgage - the highest proportion since 2010.

Growth in the mortgage market has become one of the main drivers of housing construction. The share of mortgage-financed purchases for new housing purchased at the construction stage has increased to 30-40%. Both mortgages and new housing output help to absorb the additional effective consumer demand reducing volatility in the housing market.

Currently, macroeconomic instability and geopolitical tension are affecting the banking sector's ability to borrow on international financial markets. This can have adverse effects on the mortgage interest rates and the capacity of banks to provide affordable financing for borrowers and developers.

Current objectives specific to the finance market include further development of the secondary mortgage market in order to provide a sustainable source of long-term funding for mortgages and the development of special affordable mortgage products for specific categories of households.

SLOVENIA

By Andreja Cirman, University of Ljubljana, Faculty of Economics, Ljubljana, Slovenia & Richard Sendi, Urban Planning Institute of the Republic of Slovenia, Ljubljana, Slovenia

Slovenia is one of the countries that have been most deeply affected by the Global Financial Crisis (GFC). After a major slump in GDP in 2009, the country showed a weak recovery in 2010 but slipped into recession again in the second half of 2011. The financial crisis revealed many unsustainable business models within Slovenia's banking sector as well as in the housing development and construction sectors. A huge amount of housing stock, leveraged with an abundance of cheap funds before the crisis, was left unsold on the market leaving the banks struggling with massive amounts of non-performing loans. Practically, all the large construction companies were bankrupted and the banks have almost completely stopped financing housing construction. As a result, in the last three years new housing construction is at its lowest levels for 20 years.

Although the indebtedness of Slovenian households is well below the average in the Euro area, demand for housing loans started to decline in 2011, primarily because of decreases in household consumption and uncertain conditions on international markets. Declining household disposable income, lack of consumer confidence, high unemployment and a growing proportion of flexible forms of employment, together with the enforcement of stricter bank credit standards, led to a 23% decline in housing loans in 2012 and a further 15% in 2013.

In 2014, the economic situation in Slovenia stabilised resulting in a more positive outlook for household consumption and consumer confidence in 2015. However, the effect of the bank crisis on the construction industry remains an important challenge for the future of the Slovenian housing and housing finance markets. The low level of new housing construction and continuing drastic falls in the number of starts may result in a substantially lower supply of housing in future years. A major concern is that this may put pressure on house prices in the following years.

SPAIN

By Irene Peña, Spanish Mortgage Association, Spain & Baralides Alberdi, Independent Consultant, Madrid

Housing finance in Spain over the last 25 years has been heavily based on mortgage lending, which at the end of 2008 stood at more than a 100% of GDP. The onset in 2007 of the Global Financial Crisis (GFC) highlighted the imbalances generated over the previous 10 years of sustained growth, especially the financial system's exposure to the real estate and housing markets, and the high levels of indebtedness of the private sector. The over-emphasis on real estate developments during this period contributed to the financial sector's distress, creating difficulties for bank funding and constraining mortgage activity.

Important measures were undertaken by regulators to restore confidence in the system and the flows of credit. The first of these measures was the creation in 2009 of the FORB (Fund for Orderly Bank Restructuring) to manage credit institutions' restructuring and resolution processes. One of the main actions of the FORB was to manage consolidation in the savings bank sector, which was especially hit by the crisis.

The second set of actions was framed in the rules established by the Memorandum of Understanding (2012) to provide financial assistance for the recapitalisation of financial institutions. One of the most important measures was the segregation of troubled assets, through the creation of the SAREB Asset Management Company. The transfer of assets to the SAREB, together with the recapitalisation efforts made by the financial institutions diminished the importance of real estate assets and loans on banks' balance sheets.

These important milestones, coupled with the deleveraging process in the private sector, the correction in housing prices and a more stable macroeconomic environment have contributed to a gradual recovery of the housing market in 2014. However, mortgage activity will be based on far greater prudence and responsibility. In particular, credit risk analysis will be an essential component in assessing mortgage applications. In this context the development of a robust rental market will be essential to provide for that part of housing demand which probably will not gain access to mortgage lending and to avoid the instabilities generated during the boom years.

SWEDEN

By Peter Englund, Stockholm School of Economics

Compared to many other countries the Swedish financial system was relatively little affected by the Global Financial Crisis (GFC). After a blip in 2008-09, major trends continued seemingly unperturbed by the crisis. This is reflected in the fact that household indebtedness as a fraction of GDP has continued to grow (from 45% in the mid-1990s, to 75% in 2007, to 90% today, with the great majority of these loans being housing related) and a parallel trend of continuous increase in housing prices.

The continued increase in lending has become a major policy concern, particularly in the last couple of years. It has caused the Riksbank to maintain an interest rate that has proved to be inconsistent with the inflation target as well as employment objectives

For a long time the increase in debt was accompanied by higher LTV ratios and longer amortization periods. This led the supervisor (*Finansinspektionen*) to impose an 85% maximum LTV limit on all new mortgage loans from 2010, resulting in a slight decline in the average LTV from 71% in 2010 to 69% in 2013. Currently, the supervisor is also looking to ban interest only loans. More direct measures to reduce the demand for loans, such as limiting tax deductibility of interest payments, remain lacking.

Mortgage lending to households has traditionally been seen as low risk. Consequently, banks' internal models based on historical data yield very low capital coverage according to the Basel rules – on average only 5% in 2012. This has been regarded as too low on macro-prudential grounds. Consequently, the supervisor imposed a 15% risk-weight floor for mortgage loans from 2013.

Overall, the cost of mortgage borrowing has remained low, although the margin between the repo interest rate set by the Riksbank and the variable mortgage interest rate has increased from around 100 basis points before the crisis to around 150 basis points today. This reflects higher funding costs for banks, combined with increased bank profit margins.

The continuing increase in house prices is a major policy concern. Combined with rents regulated below market-clearing levels, this has made housing inaccessible for ever larger groups of younger households. It is controversial whether the high prices can be explained by fundamentals or whether they involve some elements of a bubble. It is even more of a puzzle why new construction has not increased more. The answer to that question, however, probably lies outside the area of finance.

TURKEY

By Yener Coşkun, Senior Expert, Capital Markets Board of Turkey; Visiting Lecturer at Izmir University of Economics & University of Sarajevo

The Turkish economy was transformed from a closed economy to a market economy after 1980. Market reforms based on liberal policies, were introduced and expanded both housing and finance markets. In the last decade, Turkey has experienced increasing marketisation and internationalisation in real estate markets. The Global Financial Crisis (GFC) had only a short-term effect.

Economic and political stability together with these limited negative impacts from the GFC have supported continuing growth in the housing market. Overall, the housing market has been in a boom period since 2003. Mortgage loans increased to 51.6 billion USD in 2013 from 0.4 billion USD in 2003. House prices have also increased significantly - by 44.7% between 2006/7 and 2014/6.

While current conditions appear benign, there are also observable concerns on housing market. First, the mortgage debt to GDP ratio remains very low at roughly 6% in mid-2013. However, there has been no publicly issued mortgage backed securities (MBS) since the mid-1990s and retail funding remains limited. This lack of development in the primary/secondary mortgage market picture implies that further expansion in mortgage finance could be problematic.

Secondly, the volume of construction loans reached 36.7 billion USD (78.8 billion Turkish Lira) in March 2014, with only 4% of non-performing loans. However, 32% of this loan portfolio is short-term. It means that the construction sector could be vulnerable to changes in funding availability and adverse market conditions. This risk also has potential negative impacts on housing markets.

More generally the outlook for the housing market into the long-term is positive. However, some commentators argue that there could be excess housing supply if macro and financial market conditions change, while others suggest that there is a risk of a housing bubble. The immediate future of the market is currently one of the most widely debated topics, although data constraints limit the discussion.

All in all, the Turkish housing market has strong fundamentals and provides good opportunities for all stakeholders. But, it is equally important to note that housing (and real estate) market activities in Turkey may require more careful management in the next few years.

UNITED KINGDOM

By Christine Whitehead, Kath Scanlon, LSE London, London School of Economics

The Global Financial Crisis (GFC) started early in the UK with the bankruptcy of Northern Rock. By late 2008, the impact of the crisis went very deep, undermining the financial viability of many major banks and stopping the mortgage market in its tracks. The main issues related to subprime and self-certified lending but mainstream lenders were also granting high loan-to-income ratios and extensive re-mortgaging using interest only and other innovative instruments to increase affordability.

Immediately after the crisis there was very little mortgage funding available. The mortgage backed securities market closed and banks had very little capacity to do more than provide replacement mortgages for the large numbers of mortgagors who had short-term arrangements. However, demand was also low as potential purchasers became more risk averse and the recession took hold. House prices fell in both nominal and real terms until 2010 when the market started to improve. Now prices are above their 2007 highs in nominal terms except in the north of England and Northern Ireland. However, gross advances are still less than half of the 2007 figure and 40% of purchasers are cash buyers. Housing construction fell off a cliff - output levels fell by more than 50% and, although there has been some improvement, still remain at historically low levels.

In 2010 the Financial Services Authority Mortgage Market Review set out a programme of re-regulation based on more detailed and broader based risk regulation, which is now being introduced. Potential mortgagors must show the capacity to pay based on higher interest rates and a traditional repayment mortgage. At the present time this will have little effect as banks have anyway lowered loan-to-value ratios, except where there is government support while consumers are far more risk averse.

Initially government support emphasised helping mortgagors who were unable to pay their mortgages. However, falling interest rates meant that this was far less of a problem than expected. The problem was simple lack of funds. This was finally addressed in 2012 by the Bank of England's Funding for Lending scheme, at below market rates to banks to on-lend to small and medium sized businesses and mortgagors for up to four years.

Government has introduced a wide range of initiatives, including kick-start finance for developers; Help to Buy equity finance; and mortgage guarantees at commercial rates. Even so, neither the housing nor the finance markets are anywhere back to normal.

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